STATE OF VERMONT
PUBLIC SERVICE BOARD

EEU-2011-04

In re: Vermont Energy Investment Corporation Request)
for Funding Bridge)

Order entered: 10/31/2011

ORDER RE REQUEST FOR FUNDING BRIDGE AND NOTICE OF HEARING

I. INTRODUCTION

In this Order, the Public Service Board ("Board") authorizes Vermont Energy Investment Corporation ("VEIC"), in its capacity as the appointee operating Efficiency Vermont,[1] to use its line of credit to "bridge" up to three million dollars between the 2009-2011 and 2012-2014 performance periods, as VEIC requested, subject to the following conditions:

- VEIC must clearly track and invoice all costs and savings attributed to the specific electric efficiency measures affected by the bridge funding;
- VEIC shall claim savings from the projects affected by the bridge funding based on baselines and other measure assumptions agreed to for measures installed in program year 2012; and
- VEIC shall endeavor to minimize the use of its line of credit where possible and appropriate.

However, because VEIC did not provide sufficient information for us to understand: (1) what happened to cause VEIC to expect that it will exceed Efficiency Vermont's Board-approved 2009-2011 electric budget by as much as three million dollars; and (2) the potential magnitude of the interest costs associated with the proposed funding bridge, we do not rule in this Order on who should bear the interest costs associated with the use of VEIC's line of credit to provide the

1. On December 20, 2010, the Board issued VEIC an Order of Appointment to serve as an Energy Efficiency Utility ("EEU"). Operating as Efficiency Vermont, VEIC provides electric and heating-and-process-fuel energy efficiency services to Vermonters other than those located in the City of Burlington Electric Department's service territory.

funding bridge. Instead, the Board will conduct an investigation into why this situation occurred and who should bear the costs of addressing it.

We also recognize that this issue affects subjects now under consideration in matter number EEU-2010-06 related to the development of quantifiable performance indicators for VEIC for the 2012-2014 performance period. As a result, we direct Board staff to clearly identify in that proceeding whether their recommended performance goals for VEIC are set at the level they would have been if the funding bridge had not been needed, or if they take into account any interest costs associated with the funding bridge. We further direct Board staff to explore including in VEIC's 2012-2014 quantifiable performance indicators a metric related to managing Efficiency Vermont's three-year budget (perhaps in the form of a minimum performance standard). This exploration should develop a recommendation on whether to open a proceeding to consider modifying VEIC's Order of Appointment and the document entitled "Process and Administration of an EEU Appointment" ("Process and Administration Document") to ensure that this new regulatory structure appropriately balances the needs of ratepayers and an EEU with respect to managing an EEU's three-year budget.

Finally, we decline to adopt at this time GMP's recommendation regarding a threshold for future bridge funding transfers below which Board approval would not be required.

II. VEIC Request

On October 4, 2011, VEIC filed via e-mail message a request for Public Service Board ("Board") approval to "bridge" funds between the 2009-2011 and 2012-2014 performance periods. Specifically, VEIC requested that the Board allow VEIC to utilize its line of credit to borrow up to $3,000,000 in 2011 that would ultimately be paid with Efficiency Vermont 2012 funds. VEIC further proposed that all costs and savings attributed to the specific electric efficiency measures affected by this proposal would be invoiced and reported in the 2012-2014 performance period. VEIC asserted that this proposal would not require any adjustment to goals or budgets for either the 2009-2011 performance period or the 2012-2014 performance period.

In its request, VEIC stated that demand for energy efficiency services has recovered significantly from the low point of the recession in 2009 and remains strong. According to

VEIC, it has slowed promotion of new and existing initiatives, but ratepayer participation across multiple initiatives are on pace to exceed 2011 electric efficiency budget projections. Specifically, VEIC's current estimates of electric efficiency incentive commitments for December 2011 would cause electric spending to exceed the total 2009-2011 electric efficiency budget of $95,274,004 by as much as three million dollars if all potential incentive commitments were paid in the current fiscal year.

VEIC contended that it has two options for responding to this situation. First, beginning in November 2011, it could delay incentive payments for projects until 2012.[2] VEIC believed that interrupting programs and services in this manner would not be in the best interest of Vermont ratepayers or its private sector partners. VEIC asserted that the second option, its bridge funding proposal, is consistent with the longer-term approach embodied in the new Order of Appointment structure, and would "ensure a seamless transition from one performance period to the next and minimize impacts to Vermont ratepayers and business partners."[3] VEIC added that because its proposal does not require adjustments to goals or budgets for either the 2009-2011 performance period or the 2012-2014 performance period, the approach "maintains the integrity of the process for setting 3-year goals and budgets for the [Energy Efficiency Utility ("EEU")]."[4]

III. Participants' Comments

On October 17, 2011, Washington Electric Cooperative, Inc. ("WEC"), filed via e-mail message a letter supporting VEIC's bridge financing proposal, stating that WEC believes it is in the public good for the EEU to avoid disruption of incentive payments.

2. According to VEIC, its current practice is to pay incentives to customers in less than 30 days after acceptance of incentive approval. However, VEIC's standard incentive agreements provide it with the option of paying incentives up to 60 days after acceptance of incentive approval.

3. Letter from Michael Wickenden, Planning Manager, Policy and Public Affairs, VEIC, to Susan Hudson, Clerk, Board, dated October 4, 2011, at 2.

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On October 18, 2011, the City of Burlington Electric Department, Central Vermont Public Service Corporation ("CVPS"), Green Mountain Power Corporation ("GMP"), and the Vermont Department of Public Service ("DPS") filed via e-mail messages separate comments supporting VEIC's request.

GMP noted in its comments that VEIC's three-million-dollar bridge funding request is approximately three percent of Efficiency Vermont's 2009-2011 three-year budget. GMP suggested that the three percent level should act as the benchmark for future bridge funding transfers between budget performance periods. Specifically, GMP recommended that VEIC should need to obtain Board approval only for a future requested bridge of greater than three percent.

The DPS stated that it supports VEIC's request in order to allow for consistency across program years in the delivery of programs. According to the DPS, delaying provision of committed incentives has little benefit (a small amount of interest costs avoided) while potentially incurring significant program delivery costs, such as negatively affecting relationships with customers. The DPS suggested that VEIC should endeavor to minimize the use of its line of credit where possible and appropriate to minimize interest costs associated with the funding bridge. The DPS further recommended that all costs and savings attributed to the specific energy efficiency measures affected by the proposal should be clearly tracked and invoiced, and that VEIC should claim savings based on baselines and other measure assumptions (such as net-to-gross factors) agreed to for measures installed in program year 2012.[5] Finally, the DPS agreed with VEIC that the bridge proposal should not affect ongoing discussions regarding performance goals or savings claims in either the 2009-2011 or the 2012-2014 performance periods.

On October 19, 2011, the Vermont Public Power Supply Authority filed an e-mail message stating that it joins in CVPS's letter supporting VEIC's request.

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5. According to the DPS, this procedure is the same as that used for previous year-to-year carryover commitments.

IV. Discussion and Conclusion

VEIC's request raises two related issues. First, what action should be taken in light of the fact that VEIC anticipates exceeding Efficiency Vermont's Board-approved three-year electric budget by as much as three million dollars. Second, who should pay for any costs associated with the selected means of addressing the situation.

The Board has long granted VEIC the authority to manage Efficiency Vermont's three-year budget as a whole, including allowing it to exceed the estimated budget for a particular year, provided VEIC did not exceed the overall three-year budget. VEIC successfully managed its Efficiency Vermont budget within these constraints for multiple three-year contract periods.

We expected VEIC would continue to do so under the new Order of Appointment structure, particularly since the possibility of modifying this practice was not raised with the Board during the proceedings associated with changing the EEU program structure from a contract model to an Order of Appointment structure. Instead, the Order of Appointment structure clearly continues the practice of establishing three-year budgets (now through the process for developing the Demand Resources Plan) and three-year performance periods.[6] In addition, the Board recently established annual electric EEU budgets for the 2012-2014 time period, along with estimated annual budgets for the 2017-2031 time period.[7]

We recognize that it has been challenging for VEIC to manage its estimated annual budgets during the current three-year performance period (2009-2011) due to the country's economic situation. In particular, the economic crisis caused many customers to defer investing in energy efficiency in 2009. In response, VEIC appropriately developed new strategies for acquiring cost-effective energy efficiency savings. According to VEIC, demand for energy efficiency services has recovered significantly, and remains strong.

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6. In addition, Section III.4 of VEIC's Order of Appointment provides, in relevant part, that:

> Compensation to VEIC from funding sources under the Board's jurisdiction shall be limited over each performance period by the total budget adopted for VEIC compensation in the [Demand Resources Plan] process ("Allowable VEIC EEU Funds").

(Emphasis in original.) "Allowable VEIC EEU Funds" is defined in Section IV.2 of VEIC's Order of Appointment.

7. *See*, EEU-2010-06, *In Re EEU Demand Resources Plan*, Order of 8/1/11.

While the acquisition of cost-effective energy efficiency savings does benefit Vermonters, exceeding the three-year budget established by the Board is problematic. We carefully established the 2009-2011 budget after balancing all of the relevant statutory requirements and objectives. Exceeding the established three-year budget by as much as three million dollars is not consistent with that decision.

Furthermore, we are disappointed that VEIC provided very little information regarding how the situation now facing the Board arose. For example, when did VEIC first realize it might exceed Efficiency Vermont's three-year electric budget, and what steps did VEIC take to try to prevent that from occurring? This information is essential in order for us to determine who should bear the costs of addressing the situation (that is, who should pay for the interest costs associated with the bridge loan).

This omission is particularly troubling since both alternatives that VEIC presented for addressing the situation adversely affect ratepayers, and neither option includes any consequences for VEIC. VEIC's first alternative, to delay paying incentives to customers who complete efficiency projects, adversely affects those customers waiting for their incentive payments. VEIC's second alternative, the bridge funding proposal, increases costs to all ratepayers who pay the Energy Efficiency Charge, since they would ultimately pay the interest on VEIC's line of credit.

After considering VEIC's request and the participants' comments, we conclude that it is preferable to use bridge funding rather than to delay paying incentives, primarily because the latter option forces only those customers with projects completed near the end of 2011 to bear the costs associated with VEIC exceeding its three-year budget. That would be unfair.

Instead, we authorize VEIC to use its credit line to provide bridge funding, with the three conditions recommended by the DPS. First, VEIC must clearly track and invoice all costs and savings attributed to the specific electric efficiency measures affected by the bridge funding. Second, VEIC shall claim savings from the projects affected by the bridge funding based on baselines and other measure assumptions agreed to for measures installed in program year 2012. Third, VEIC shall endeavor to minimize the use of its line of credit where possible and appropriate.

However, we do not rule today on who should pay the interest costs associated with the use of bridge funding. We understand that it is very challenging to manage a budget the size of Efficiency Vermont's with precision, and we do not expect VEIC to spend exactly Efficiency Vermont's three-year budget during the appropriate performance period. However, VEIC does not anticipate exceeding Efficiency Vermont's electric budget by a small amount. Three million dollars is significant.[8] Unless VEIC materially reduces Efficiency Vermont's rate of spending on electric efficiency services in 2012, it is likely that it will be a considerable length of time before sufficient funds have been collected from ratepayers to completely pay down VEIC's line of credit. As a result, we are concerned that the interest costs associated with VEIC's bridge funding proposal could be material. Therefore, the Board will conduct an investigation into why this situation occurred and who should bear the costs of addressing it. With respect to this investigation, we will convene a status conference on November 22, 2011, as described further in the notice, below.

This issue also affects subjects now under consideration in matter number EEU-2010-06 related to the development of quantifiable performance indicators for VEIC for the 2012-2014 period. We direct Board staff conducting that proceeding to clearly identify whether their recommended performance goals for VEIC for that period are set at the level they would have been if the funding bridge had not been needed, or if they take into account any interest costs associated with the funding bridge. We also direct Board staff to consider in that proceeding, whether a metric can be developed related to managing Efficiency Vermont's three-year budget over the 2012-2014 period (perhaps in the form of a minimum performance standard).

We further direct Board staff to discuss with the participants in matter number EEU-2010-06 whether a proceeding should be opened to consider modifying VEIC's Order of Appointment and the Process and Administration Document to ensure that this new regulatory structure appropriately balances the needs of ratepayers and an EEU with respect to managing an

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8. To put this figure in perspective, the Board has established a 2012 electric budget for the EEU program as a whole (the largest component of which is Efficiency Vermont's electric budget) that is approximately $1.6 million higher than the 2011 electric budget for the EEU program as a whole. *See*, matter number EEU-2010-04, Order of 9/29/10 at 1; matter number EEU-2010-06, Order of 8/1/11 at 77.

EEU's three-year budget. Based on this discussion, Board staff should then present a recommendation to the Board on whether to open such a proceeding.

Finally, we decline to adopt at this time GMP's recommendation regarding a threshold for future bridge funding transfers below which Board approval would not be required. We are not persuaded regular use of such transfers would be in the public interest, and decline to adopt a mechanism at this time that would facilitate their use.

V. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. Vermont Energy Investment Corporation ("VEIC") is authorized to use its line of credit to "bridge" up to three million dollars between the 2009-2011 and 2012-2014 performance periods, subject to the following conditions:

- VEIC must clearly track and invoice all costs and savings attributed to the specific electric efficiency measures affected by the bridge funding;
- VEIC shall claim savings from the projects affected by the bridge funding based on baselines and other measure assumptions agreed to for measures installed in program year 2012; and
- VEIC shall endeavor to minimize the use of its line of credit where possible and appropriate.

2. In the instant matter number, the Board will conduct an investigation into what happened to cause VEIC to expect that it will exceed Efficiency Vermont's Board-approved 2009-2011 electric budget by as much as three million dollars and who should bear the costs of addressing it (that is, the interest costs associated with the use of bridge funding).

3. In matter number EEU-2010-06, Board staff shall clearly identify whether their recommended performance goals for VEIC for the 2012-2014 performance period are set at the level they would have been if the funding bridge had not been needed or if they take into account any interest costs associated with the funding bridge. Board staff shall also explore including in VEIC's 2012-2014 quantifiable performance indicators a metric related to managing Efficiency Vermont's three-year budget over that period (perhaps in the form of a minimum performance

standard). This exploration shall include developing a recommendation on whether to open a proceeding to consider modifying VEIC's Order of Appointment and the document entitled "Process and Administration of an EEU Appointment" to ensure that this new regulatory structure appropriately balances the needs of ratepayers and an EEU with respect to managing an EEU's three-year budget.

NOTICE OF HEARING

Pursuant to 30 V.S.A. Section 10, a Status Conference shall be held in this matter on Tuesday, November 22, 2011, at 1:30 P.M., at the Public Service Board Hearing Room, Third Floor, People's United Bank Building, 112 State Street, Montpelier, Vermont.

Dated at Montpelier, Vermont, this 31st day of October, 2011.

s/James Volz	PUBLIC SERVICE
s/David C. Coen	BOARD
s/John D. Burke	OF VERMONT

OFFICE OF THE CLERK

FILED: October 31, 2011

ATTEST: s/Judith C. Whitney
Deputy Clerk of the Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)